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MORTGAGE BANKING

SEPTEMBER 1986

The Magazine of Real Estate Finance

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MORTGAGE BANKING

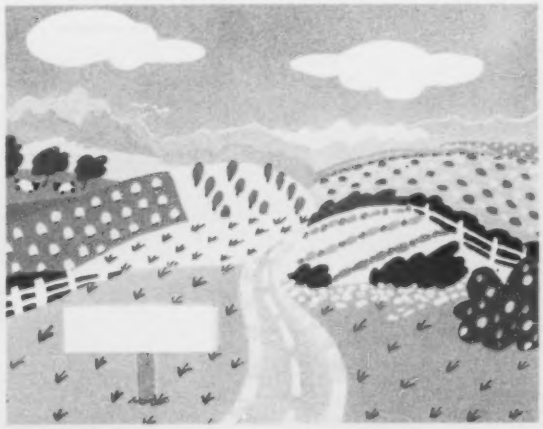
VOLUME 46 NO. 12
SEPTEMBER 1986

ARTICLES

PAGE 10
RENTAL RETIREMENT HOUSING: RUNNING WITH RENEWED VIGOR
Leonard Bogorad
America's senior population need not be labeled frail, inactive and impoverished. They are living longer, remaining more active and by and large are more financially stable. Rental retirement housing can provide security and independence for this market.

PAGE 26
WHOSE DEAL IS IT ANYWAY?
R. Lynn Tucker
The loan originator and the administration department need to work together to create a very effective and productive environment where the goals and desires of the borrower and lender are met and achieved.

PAGE 34
TAX REFORM: A NEW BUG FOR INVESTORS
Helen I. Daniel
Under the proposed tax changes, the highly leveraged income property investment, where the size and timing of returns have been structured to shelter income from other sources, will probably not fare so well. The value of the returns to the current owner would be substantially reduced. These issues are examined.



PAGE 47
BUSINESS BASICS—CHECKLIST FOR NEGOTIATING A LOAN COMMITMENT
John Oharenko
This article provides a number of major factors that should be considered when establishing the negotiation process.

PAGE 53
AVOIDING THE REFINANCING SQUEEZE
James J. Sheehan
Because of the market's low interest rates, many borrowers are attempting to find ways to prepay old mortgages despite penalties. Some interesting legal issues arise if the borrower intentionally defaults so the lender is forced to call the loan and it can be refinanced. This article explores these issues.

PAGE 59
REAL TIME TRADING SYSTEMS: IS THE MARKET CALLING?
William P. McCauley
Real time trading systems would provide the mortgage industry with direct access to the capital markets for the delivery and accumulation of nonconforming product. This author believes it is not a question of "how" but "when."

PAGE 66
SALES TRAINING: MOVING OUT OF THE REVOLVING DOOR
James L. Hennessy, Jr. and James C. Pratt
American business will spend untold amounts of money to train its salespeople this year. But the mortgage banking business is a notable exception. Will mortgage bankers continue to sacrifice professionalism for production?

PAGE 83
GINNIE MAE SERVICING: ONGOING EARNINGS
Alan E. Grimshaw and Robert D. Johnston
A historical analysis of variation in the rate of return earned on Ginnie Mae servicing is presented in this article.

PAGE 95
THE LAST WORD (BANKRUPTCY WAR UPDATE)
Michael S. Polk
There is an unfortunate trend that has developed in Southern California, which involves a flood of bankruptcy filings and attendant abuses. The current bankruptcy code requires lenders to demonstrate why the debtor should not be protected in bankruptcy instead of why the debtor should be protected.

ABOUT THE ISSUE	**5**
BUSINESS BASICS	**47**
PEOPLE	**97**
BOOKS	**101**
SECONDARY MORTGAGE MARKETS	**103**
MORTGAGE MARKET TRENDS	**105**
AD INDEX	**118**

Leonard Bogorad

Rental retirement housing is a relatively new concept—but one that has caught on quickly and is a happy solution that meets the needs of many of today's senior citizens. This type of housing enables residents to remain independent, with their own self-contained apartments equipped with kitchens. Rental retirement housing also includes many advantages of a resort hotel—restau rant service (with one or more meals a day usually included in the monthly charge), extensive recreational facilities and activities and housekeeping and linen service. Emergency call buttons and excellent security are provided and van service makes it easy to stay active in the larger community.

As would be expected when so many services are included with fully equipped apartments, rental retirement housing is not inexpensive. Monthly rents generally range from $700 to $2,500. However, the traditional perception that most elderly people are poor is simply not true today. Neither is the idea that most are on fixed incomes; if anything, their incomes are more protected against inflation than those who are younger. Seniors hold a massive amount of

RENTAL Retirement Housing

Running With Renewed Vigor

ILLUSTRATION BY BRIAN LESTER

home equity that can be freed up by those choosing to move to rental housing.

Furthermore, elderly incomes will be climbing and the acceptance of rental retirement communities should increase significantly as they become a better understood housing alternative. Nevertheless, the majority of seniors will continue to live in their own homes, so the market, though strong, is finite.

Developments with independent units and the full range of congregate services—lifecare and rental—currently number about 800 to 900. Only about 300 of these are rental retirement communities. Developers are moving aggressively into this field; developments currently being planned across the country could at least double the rental inventory. Such dramatic short-term growth will certainly spur much broader understanding of the concept. At the same time, even though demand will be increasing rapidly during coming years, some market areas will undoubtedly become oversaturated.

Developers with no experience in marketing and providing service-oriented environments for senior citizens may encounter difficulties. It cannot be emphasized too strongly that effective, sensitive delivery of services is every bit as important as creating and managing attractive, livable apartments. Rental retirement developments that are well-planned and marketed in relation to local market conditions and include quality services, can generate higher returns than rental housing that does not include this range of services.

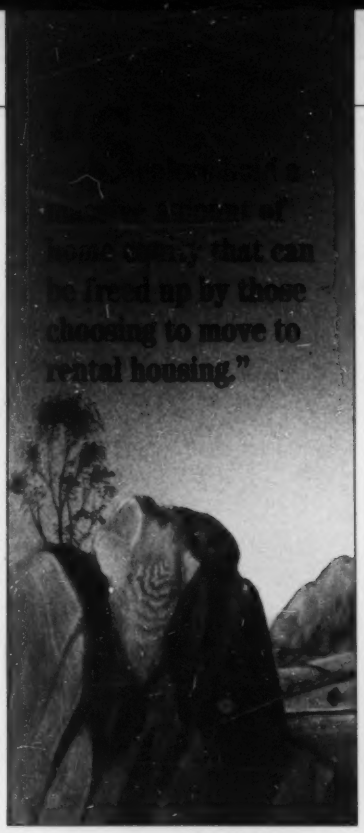
Demographic trends affecting demand

The graying of America is now a familiar concept, but it is only in recent years that people have zeroed in on the actual size of the seniors market for particular real estate or other products. For rental retirement housing, the primary market today is households who are 75 or over (disproportionately widowed women), but younger seniors (age 70 to 74 and to a much lesser extent 65 to 69) and couples may become more attracted to this type of living as its characteristics are more widely understood. In the interim, as shown in Figure 1, it is the older households that will be increasing in number fastest and that is where rental retirement housing is targeted.

Figures 1 and 2 illustrate the absolute increases anticipated for the U.S. elderly population and number of elderly households during the next 15 to 35 years. From the standpoint of long-term investors and lenders, it should be reassuring to see that the target market only gets larger—so there will be ongoing demand for projects created today. In fact, the U.S. Bureau of the Census projects that the number of people between 75 and 84 will increase by 60 percent over the next 35 years, while growth in the 85 and over population will be an extraordinary 163 percent. Right now, just under 3 million Americans are 85 or over; by 2020, there will be more than 7 million—and the vast majority will be single-person households, many of whom prefer or need some of the services provided in rental retirement housing.

However, two cautionary notes are in order:

- The lion's share of these increases that are frequently ballyhooed will not come to pass until the post-World War II baby boom generation become seniors. Someone born at the beginning of the baby boom will not be 65 until the year 2011, so other sources of demand will have to be relied upon for the next 25 years or so.
- The baby bust generation of the 1920s and 1930s is just reaching the age of 65 or so now. As a result, for example, the number of persons age 65 to 74 is projected to actually decline slightly during the 1990s. It is vital to see where within the widely



diverse senior spectrum a given development is targeted and examine the demographics of that specific segment, rather than assume that the overall growth numbers assure success.

Today's living arrangements

As shown in Figure 3, there are marked differences in the living arrangements of older men and women, in part because there are only two-thirds as many men as women who are 65 or over:

- Less than 15 percent of the men live alone, compared with 40 percent of the women.
- Men are almost twice as likely to live with their spouses. (Some reports indicate that those men who move into a retirement community single are likely to be remarried within a year or two anyway.)
- In contrast, women are twice as likely to share a home or apartment with a non-spouse—usually another older woman or a relative.
- Only about 5 percent of all seniors live in nursing homes or personal care facilities.
- Household composition shifts with the advancement of age. In the early 1960s age group, almost two-thirds of the households are married couples. For 75 and over households, the proportion is down to one-third.

Very often, it is when a spouse dies or one spouse slows down considerably that an older person seriously considers making a change in living arrangements—from a larger home or apartment to a smaller unit that requires less maintenance and provides more security and less isolation.

This pattern is graphically portrayed in Figure 4, where homeownership rates are shown to decline beginning at age 65. In 1984, 80 percent of the households in the 55 to 64 age bracket owned their own homes. For households age 75 or over, the figure was 71.5 percent. These numbers suggest two important points relevant to rental retirement housing. The first is that eight out of ten older households either own homes or have sold their homes since retirement. Upon sale of a home, considerable equity can be captured and invested to produce supplementary income.

The second observation is that most elderly households own their own dwelling units and, if other alternatives for independent living were better known, might consider switching from ownership to rental. To date, there have been few options widely available that provide for independent living but offer such services as meals, transportation, recreation and housekeeping, if needed or desired.

Independence versus dependency

Life expectancies of older Americans have been increasing steadily, so that an average 75-year-old can expect to live many more years. While life expectancy keeps stretching out, the need for assistance in daily living tends to become greater as people age. In fact, the probability of a person requiring some assistance approximately doubles in each five-year period after 65.

While relatively few elderly Americans ever live in nursing homes, many do eventually need some additional services, while living independently in homes or apartments. Today's rental retirement housing offers services to such households—and for people who are now independent, provides the security of knowing that the services are available and can be used if needed.

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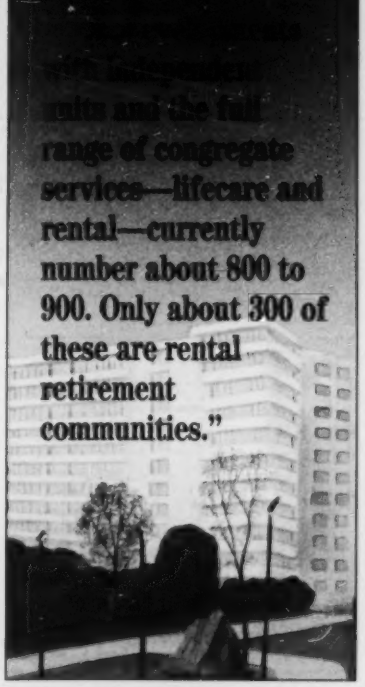
Migration of seniors

Contrary to popular opinion, senior citizens are not a mobile group. From 1982 to 1983, 7.3 percent of all owner-occupants in the U.S. moved—but the rate for households over 65 was only 2.2 percent. Among all renters, 32 percent moved—but among renter households over 65, only 8.6 percent moved. As suggested by these numbers, seniors are a far more stable tenant group than younger people. Once settled, older households tend to stay put. However, as would be expected, a decision to move also occasions long and careful deliberation, so lease-up of rental retirement housing is often slower than anticipated by developers lacking experience in senior housing. Between 1980 and 1983, 85 percent of Americans over 65 did not move at all. Of those who did move, 61 percent stayed in the same county, 21 percent moved to a different county but remained in the same state and only 19 percent of the small number of movers (3 percent of all seniors) went to a different state (and many of these were moving back to their home areas or to places close to their families).

Older people generally prefer to stay in the cities—and the neighborhoods—with which they are familiar. Being near friends and particularly family members becomes more important the older one gets. Consequently, rental retirement developments draw the bulk of their tenants from within a 10-mile radius. Depending on the region of the country, though, 10 percent to 20 percent of the residents, and sometimes even more, come from farther away, often to be closer to their children; many of these seniors earlier moved to the Sunbelt and are moving back after one spouse slows down or dies.



Income and home equity of seniors

Although market-rate rental retirement housing is not inexpensive, many seniors *can* afford these developments. The income and assets of many of today's older households are far greater than is commonly assumed. Moreover, elderly households hold a massive amount of home equity—a fact of particular significance because most residents of rental retirement housing previously owned their own homes, frequently free and clear.

Income diversity is common to households in all age groups—seniors included. Although many seniors have relatively modest cash incomes, even these households are more prosperous than their counterparts a few years ago. As the left side of Figure 9 shows, over one-third of households 70 and over—4.5 million households—have cash incomes of $15,000 or more. Another 3.2 million households age 65 to 69 also have incomes in this range. The median cash income of senior households increased by a startling 75 percent (in constant dollars) between 1962 and 1984.

Furthermore, as shown in Figure 6, seniors have close to $800 billion in total home equity, with 60 percent held by households age 70 and over. The average owner 65 or over has

continued

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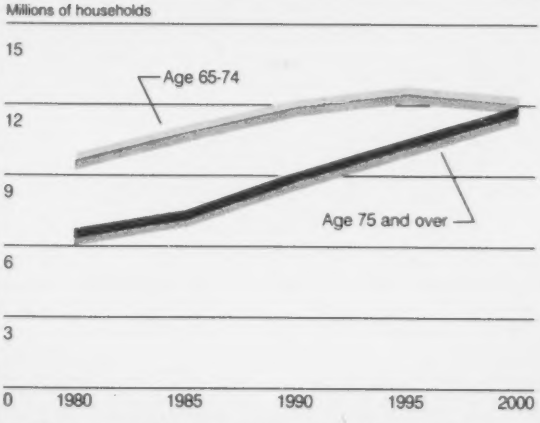
FIGURE 1

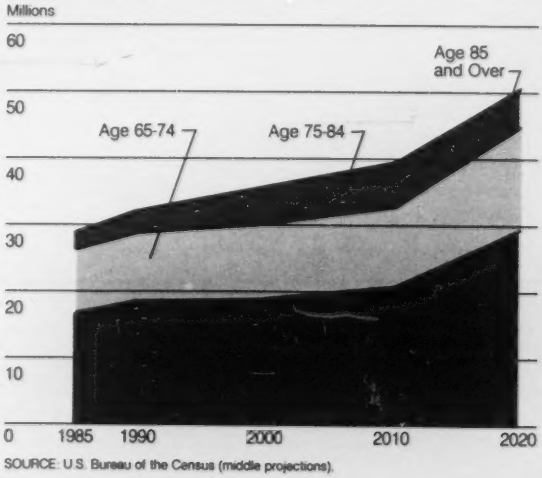
Projected Growth in Senior Households, 1980-2000



SOURCE: Calculations by Joint Center for Housing Studies of M.I.T. and Harvard University, based on cohort projections prepared by John Pitkin and George Masnick for U.S. Department of Housing and Urban Development.

FIGURE 2

Projected Growth in Senior Population, 1985-2020



SOURCE: U.S. Bureau of the Census (middle projections).

$60,900 in home equity. If this average household sold its home and invested the net proceeds at, say, 10 percent per year, it would have an additional $470 per month available to spend for multiservice rental housing. The right side of Figure 9 shows the results of adding potential income from home equity to cash income. Fully 49 percent of households 70 and over—6.1 million households—have potential incomes of $15,000 or more and 2.9 million have potential incomes of $25,000 or more.

Assumptions about elderly incomes are untrue

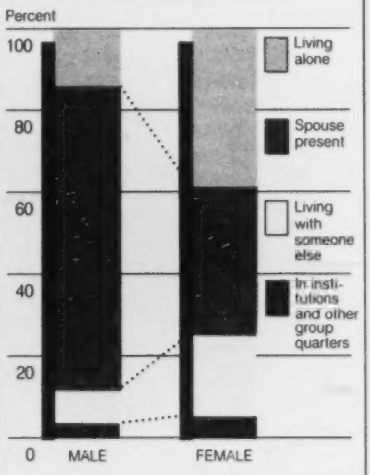
As a result of several phenomena—social security payments that have increased much faster than wage levels and continue to be indexed to inflation, improved and more widespread pension plans and greater accumulation of financial assets—a number of common assumptions about the elderly are inconsistent with the following realities:

- The percentage of persons who are poor is lower for people 65 and over than for those under 65, although this is partially because so many children live in poverty.
- The economic status of seniors is not much different from that of the population as a whole. Seniors' average after-tax income per household member is actually 9 percent higher

continued

FIGURE 3

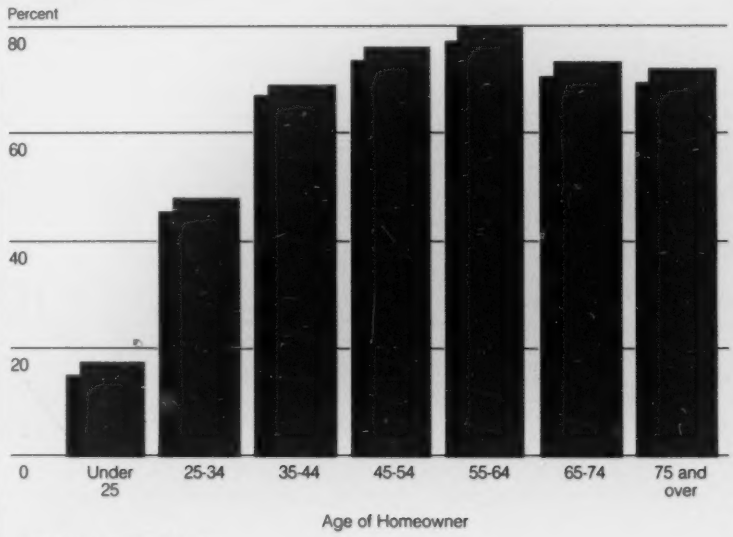
Living Arrangements of Men and Women Age 65 and Over, 1981



SOURCE: U.S. Bureau of the Census, Demographic and Socioeconomic Aspects of Aging in the United States.

FIGURE 4

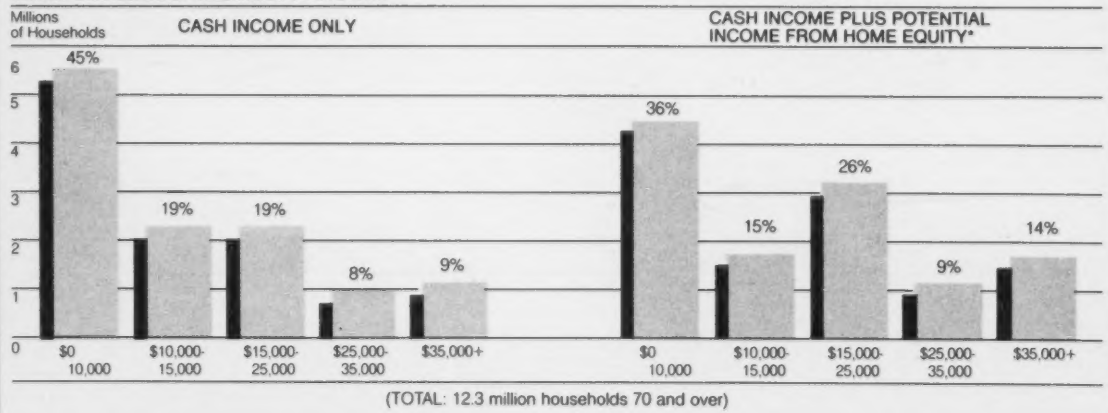
Homeownership by Age, 1984



SOURCE: U.S. Bureau of the Census.

Figure 5

Income Distribution of Households 70 and Over



*Assuming homes were sold and net proceeds of sale invested at 10% per year.

SOURCES: U.S. Census Bureau (special tabulation by Conference Board); RERC analysis of data from Susan Wachter, University of Pennsylvania, *Housing Demand Analysis*, forthcoming, based upon 1983 Survey of Consumer Finances.

than that of non-seniors.

- Most senior households are not living on "fixed incomes." Careful studies indicate that, if anything, their incomes are more protected against inflation than the incomes of younger households.
- Despite the perception that retirees have to live much more frugally than they did when they were working, more than 80 percent of retirees have the resources to consume at the same rate during retirement as they could before they retired.
- Not all seniors are retired, so some households still receive significant income from earnings; many receive income from investments.

Seniors can afford multiservice housing

The facts show that many seniors *can* afford a rental retirement housing package, including services, in a price range of $700 to $2,500 per month. Not only do a large number of senior households have relatively high incomes, particularly after adding potential income from home equity; they also benefit from having a comparatively high proportion of their income available for housing because many of their other expenses are lower than when they were younger. Many non-housing expense items—such as food, transportation, utilities, major appliances, housekeeping, linens and entertainment—are fully or partially included in the rental retirement package.

To develop the data in Figure 7, Real Estate Research Corporation (RERC) calculated the percentage of income that households at various age and income levels are already spending for items typically covered by a rental retirement package; these funds would clearly be available after a move to this type of development. In addition, it was assumed that much of the money now being saved (often because housing costs are so low for

continued

Figure 6

HOME EQUITY OF SENIORS* (1985 Dollars)

Age of household head	Total home equity	Average equity per owner household
65-69	$306.8 billion	$69,700
70-74	$196.6 billion	$57,800
75+	$271.3 billion	$55,100
	$774.7 billion	$60,900

*Excluding those with negative equity.
SOURCE: Real Estate Research Corporation analysis of data from Susan Wachter, University of Pennsylvania.

Figure 7

Households That Can Afford Various Levels of Monthly Payments, 1985

	Households that can afford monthly payment* or more than:			
	$800	$1000	$1500	$1800
One-person households				
65-69	1,062,000	794,000	428,000	222,000
70-74	905,000	518,000	197,000	128,000
75 and over	1,446,000	885,000	390,000	340,000
Subtotal	3,413,000	2,197,000	1,015,000	690,000
Two-person households				
65-69	2,272,000	1,797,000	876,000	611,000
70-74	1,569,000	1,249,000	484,000	320,000
75 and over	1,943,000	1,678,000	737,000	725,000
Subtotal	5,784,000	4,724,000	2,097,000	1,656,000
TOTAL 65 AND OVER	9,197,000	6,921,000	3,112,000	2,346,000
Households that can afford payments as percentage of total households (by age group)				
65 and over	51%	38%	17%	13%
70 and over	48%	35%	15%	12%
75 and over	46%	35%	15%	15%

*Including one meal per day, utilities, linen service, transportation, housekeeping, etc.
Proceeds from home equity assumed to be invested at 10%.
SOURCE: Real Estate Research Corporation analysis of data from Susan Wachter, University of Pennsylvania.

those owning a house free and clear) would also be available if a household wanted to move into a rental retirement community. These calculations generally indicate that 50 percent to 58 percent of income (depending on age and income level) could be spent for a typical package that includes one meal per day. For households that own homes, RERC then added the potential income from investing the net proceeds from home sales.

Figure 7 shows that, for example, 2.4 million one-person households 70 and over can afford a monthly payment of $800 or more. Among two-person households, 2.9 million can afford a monthly payment of $1,000 or more. Fully 46 percent of all households 70 and over (5.7 million) can afford some form of rental retirement housing (given that monthly costs at less expensive developments generally start at about $750 for one person and $900 for two persons).

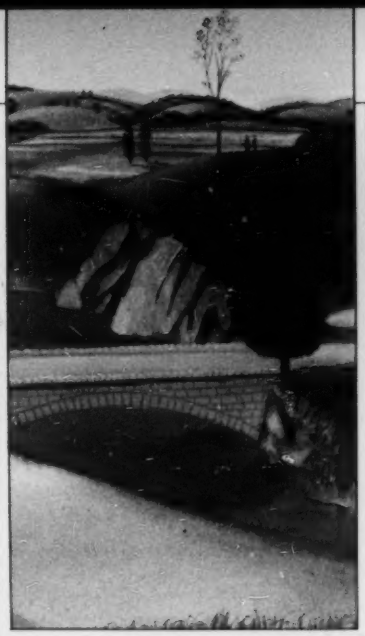
Many of the more desirable rental retirement communities have substantially higher monthly charges—particularly those that are newer, are in high-cost areas or provide higher quality or more comprehensive services or larger units. More than 1.6 million households age 70 and over can afford monthly payments of more than $1,500 for one-person households or $1,800 for two-person households. The potential market becomes even larger, of course, if households age 65 to 69 are also considered.

Prospects for the future

Not only are these figures substantial, but they will be increasing significantly during coming years. This is due not only to the rapid rate of growth in the number of senior households, but also that most key sources of senior income will be increasing over time:

- Social security has become almost universal among those over 65 and is basically inflation-proof.
- The assets of seniors—and income from those assets—will continue to grow.
- Pension provisions are improving and benefits will be larger and more widespread for future retirees than they are for current seniors.

Even if the distribution of income and home equity remains constant, future increases in the number of senior households will boost the number of households 70 and over that can afford one or more types of rental retirement housing from 5.7 million in 1985 to approximately 7.6 million in the year 1995. In fact, the growth will be even greater than this because income and home equity will be significantly greater in 1995 than they are today (in constant dollars). If forecasts of elderly income are correct, approximately 87.8 million households 70 and over will be able to afford this type of living in 1995, a 54 percent increase over 1985.



Key factors to watch for

An intensely service-oriented real estate product like rental retirement housing must be of consistently high quality. Not only is this required for the success of individual projects; a highly publicized catastrophe in a particular metropolitan area would likely impede marketing of other developments in the same market. As a result, it is important to emphasize the key variables of successful development:

Front-end costs:

- Lenders are demanding sophisticated market analyses for rental retirement developments. Elderly populations vary enormously from one market to another, in terms of size, income level, attitudes and many other variables and development potential is strongly influenced by such factors as locational amenities and proximity to shopping areas. Moreover, as competition is increasing, market segmentation is becoming more refined. RERC has created a sophisticated computer model that estimates the demand for rental retirement housing in any given market area.
- Absorption that is slower than for traditional rental projects must be anticipated in cash flow planning. An overall absorption rate of 10 units a month is very successful and five to seven per month is more typical. It is not unusual for potential residents to make five or more visits before making a decision—children and friends are often brought along as advisors. In addition, marketing efforts must recognize that most potential residents are not specifically in the market for rental retirement housing and may not yet appreciate its advantages. Marketing efforts prior to opening are important, in part to familiarize nearby seniors and their families with a new development, although most leases are not signed until construction is completed.
- Marketing efforts should strive to establish the credibility of a development and the developer, by means of community outreach and association with known service providers. Marketing for rental retirement developments is much more expensive than for traditional developments.
- Despite the large need for additional developments, it would not be difficult to saturate any particular market, as is occurring in a number of areas, given the intense developer interest in tapping this demand and the comparatively slow absorption experienced even when there is limited competition.
- Virtually every rental retirement development necessitates rezoning or obtaining variances. Some states have also begun to require licensing of rental retirement housing even when a nursing home is not included. Again, these requirements can consume time and money and must be anticipated.

Service provision:

- Service is crucial to ongoing success, which makes these developments distinctly different from normal housing projects. Over the years, many organizations and individuals have learned how to provide

effective services for the elderly; the key is to be sure that staff or contracted service providers are experienced in this field.

- Good food service is critical. Tenants will move out if the food is not good, the service poor or the setting unappealing.
- Social and recreational activities are also important and should be tailored to the sociological profile of the tenants. Inclusion of active recreational facilities can increase the appeal to the younger end of the market.

Design and location:

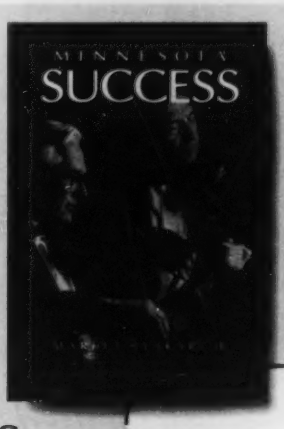
- Experience with the elderly must be reflected in project design. Consideration should be given to such factors as color perception; kitchen and bathroom accommodation and door widths for partial handicaps; accessibility and lighting; indoor and outdoor security; size of units (larger units are more popular than smaller and efficiencies are often hard to market); size of congregate kitchens and dining rooms; and provision of a good-sized multipurpose room and other activity areas. Esthetically, developments should look like quality residential communities, not institutional nursing homes.
- Many residents own cars even if they use them very little. So adequate parking must be provided. Similarly, storage space outside the individual apartments should be made available.
- A well-planned and attractive entrance to the complex is extremely desirable from both marketing and tenant satisfaction perspectives.
- Locational features, such as a low neighborhood crime rate and proximity to shopping, public transportation and potential residents and their families are also important.

Management:

- Because of the extensive service provision, far more demands are placed on managers than in the typical apartment project. Numerous vendors and a range of service staff have to be dealt with on a daily basis.
- Experience with and sensitivity toward seniors are essential. These qualities should be reflected in careful health screening of prospective tenants and appropriate procedures for dealing with residents who need more intensive assistance than the development provides. The age profile of a project will change over time, so management has to be adaptable.

These complexities add to development risk. Relative to the traditional multifamily development that does not include an array of services, a well-designed, well-managed rental retirement project also offers an opportunity for higher financial return. Achievable rents are much less sensitive to those being charged at nearby developments and the higher monthly charges can make it possible to include a somewhat higher profit factor.

Many senior households can now afford rental retirement housing. The market will expand significantly as the number of relatively affluent seniors grows and as the concept becomes more widespread and better known. Developments that are located, designed and marketed well and that include quality management and services sensitive to the particular needs of seniors, offer excellent potential for investment. □



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MORTGAGE MARKET TRENDS

The first of this year ended on a weak note as GNP growth slowed to a 1.1 percent annual rate in the second quarter, down from a 3.8 percent rate in the first quarter. While the second quarter calculation of GNP is subject to change in the coming months, overall economic activity was, nevertheless, substantially lower in the second quarter than in the first.

A part of the reason for the second quarter decline in GNP growth was slower than expected auto buying in the first quarter, which left manufacturers with a large inventory of unsold cars. A dip in the production of autos during the second quarter pared auto inventories such that nonfarm inventory investment declined by $25 billion in the second quarter, after a $21 billion increase in the first. A further constraint to higher growth during the second quarter was imposed by the continued decline in oil and gas exploration, initiated by the free fall in world oil prices.

There were, however, a few rays of good news during the second quarter. Producer's durable equipment purchases rose considerably, up $12.5 billion following a drop of almost $15 billion in the first quarter. Government spending also played a positive role in the second quarter. There was continued strength in consumers' spending during the second quarter. Purchases of durable goods by consumers reversed a first quarter decline of $1.6 billion, rising $12 billion in the second quarter, and nondurable goods purchases maintained its first quarter vigor. Spurred by low interest rates, residential construction showed a very favorable performance, adding almost $7 billion to annual GNP growth during the second quarter, compared to about $5 billion in the first. Additionally, inflation has shown few signs of any meaningful resurgence.

The primary restrictions on growth in the first half are now behind us for the most part. The excess inventories of autos have largely been depleted, and the steep decline in oil and gas exploration resulting from the precipitous drop in oil prices has probably bottomed out. However, it is unlikely that consumer spending will continue at its first half pace; and some fundamental weaknesses still stand in the way of any substantial resurgence in the pace of overall economic activity for the near term.

One major area of underlying weakness in the economy important to second half growth is business fixed investment. The effect of intense and prolonged foreign competition on domestic producers has been to idle large portions of plant and equipment. This, in turn, has dampened investment demand in that sector. In addition, high vacancy rates coupled with some sharp downturns in local economies have produced a steep reduction in the construction of commercial buildings since early this year. The potential for revisions in the tax structure as it effects these structures will further act as a drag on nonresidential investment throughout the remainder of the year. Moreover, growth in producers durable equipment during 1986, previously stimulated by demand for high technology capital, may be less than was the case in 1985.

A second major area of weakness in the economy is the continued deterioration in the foreign trade deficit. The dollar's decline in exchange markets has stimulated a positive response in the volume of nonfarm exports, but imports continue unabated. Between the fourth quarter of 1985 and the second quarter of 1986, nonfarm exports rose at an annual rate of 9 percent. But during the same period, imports of nonoil items rose at an 11 percent rate. Changes in the exchange value of the dollar have not been translated into lower imports to the degree originally expected. Apparently, foreign producers have, to date, been less sensitive to profit margins than to market share.

Prospects for a resurgence of economic growth in the second half of this year are also dimmed by expectations of more fiscal restraint, resulting from the Gramm-Rudman deficit target of $144 billion. While this goal may not actually be met, there is little doubt that the fiscal 1987 deficit will be lower than the prospective fiscal 1986 deficit of about $220 billion. Irrespective of long run benefits, Federal spending restraints will contribute to a weakening in the second half levels.

All in all, economic performance in the second half of this year should be fairly moderate, but better than the 2.5 percent rate of growth in the first half. There is evidence to suggest that the factors acting as a drag on activity during the first half of the year are slowly ending. Imports of petroleum products have been running at an unsustainable rate, and high oil inventories should discourage any further pickup in oil imports. Moreover, the rate of business inventory investment, freed from the excess auto stocks, will probably be a net addition to growth in the second half.

Given the prospect for moderate growth during the remainder of the year, the Federal Reserve is, nevertheless, unlikely to attempt to stimulate economic activity in an aggressive fashion. Any further declines in interest rates would have only marginal impact on domestic output, and could precipitate an increase in the volume of nonoil imports. The Fed must also be concerned about the debt service requirements of developing countries, and the potential for major disturbances a repudiation of debt would invariably produce.

The housing market, on the other hand, should continue to show a solid performance in the second half of this year. Mortgage interest rates should remain near current levels, and may even fall a bit further in the coming months. The fundamentals on inflation also continue to look good. Demand for single-family homes should remain firm. Given the outlook for interest rates, new home sales may run at an annual rate of 750,000 to 800,000 unit level, with existing home sales near 3½ million. New construction of multifamily buildings may be buffeted by some regional economic problems and prospective changes in the tax code, but an annual rate of multifamily housing starts of between 550 and 600 thousand units for the second half is not unlikely. Starts on single-family homes should behave quite well, however, with sales of homes generating residential starts at about a 1¼ million annual rate through the remainder of 1986. And, unless a drastic change in mortgage rates occurs, this level of activity implies total mortgage originations of approximately $400 billion for 1986, with about 35 to 40 percent of activity accounted for by refinancing of outstanding loans.

Gregory D. Luetscher, *Economist*
August 12, 1986

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual Total	Actual 1-4 Units	Actual 5+ Units	Seasonally Adjusted Annual Rates Total	Seasonally Adjusted Annual Rates 1-4 Units	Seasonally Adjusted Annual Rates 5+ Units	PERMITS 17,000 ISSUING PLACES: Actual Total	Actual 1-4 Units	Actual 5+ Units	Seasonally Adjusted Annual Rates Total	Seasonally Adjusted Annual Rates 1-4 Units	Seasonally Adjusted Annual Rates 5+ Units
1986												
JAN	116	79	37	2,034	1,442	592	119	74	45	1,861	1,187	674
FEB	107	71	36	2,001	1,317	684	109	68	41	1,808	1,155	653
MAR	151	104	47	1,960	1,305	655	152	99	53	1,834	1,150	684
APR	188	126	62	2,019	1,321	698	180	125	55	1,885	1,256	629
MAY	187	134	53	1,860	1,330	530	170	120	50	1,788	1,210	578
JUNE	183	131	52	1,845	1,301	544	169	118	51	1,745	1,193	552
1985 TOTAL	1,741	1,165	576				1,733	1,077	657			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
6 MONTHS												
1986	932	645	287				903	604	299			
1985	855	582	273				843	540	303			
1984	914	631	283				899	578	321			
1983	806	577	229				775	517	258			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS: Actual North East	Actual Mid-West	Actual South	Actual West	Seasonally Adjusted Annual Rates North East	Seasonally Adjusted Annual Rates Mid-West	Seasonally Adjusted Annual Rates South	Seasonally Adjusted Annual Rates West	PERMITS 17,000 ISSUING PLACES: Actual North East	Actual Mid-West	Actual South	Actual West	Seasonally Adjusted Annual Rates North East	Seasonally Adjusted Annual Rates Mid-West	Seasonally Adjusted Annual Rates South	Seasonally Adjusted Annual Rates West
1986																
JAN	14	10	62	29	350	318	909	457	14	12	58	34	290	314	767	490
FEB	12	11	51	33	404	370	745	482	12	12	53	32	287	306	743	472
MAR	21	21	69	40	332	344	763	521	21	20	64	46	276	287	718	553
APR	29	32	75	51	324	365	796	534	29	33	69	49	302	333	727	523
MAY	27	28	79	53	260	252	823	525	29	31	62	49	277	301	687	523
JUNE	30	35	70	48	280	298	765	504	27	29	64	48	271	280	701	493
1985 TOTAL	252	240	782	468					260	237	753	484				
1984 TOTAL	204	243	866	436					201	212	812	457				
6 MONTHS																
1986	133	137	406	255					133	136	373	260				
1985	110	109	400	236					122	105	378	238				
1984	86	115	478	236					92	103	451	253				
1983	75	95	456	182					72	84	432	187				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1]	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1986														
JAN	213	55	351	6.0	$224.0	$92.9	$29.9	$101.2	1,094	628	466	122	81	41
FEB	218	59	342	5.9	225.1	94.8	29.8	100.5	1,110	638	472	118	76	42
MAR	277	89	331	4.5	221.1	95.7	30.8	94.6	1,099	627	472	133	92	41
APR	336	84	334	4.5	224.4	97.5	31.8	95.1	1,135	641	494	129	94	35
MAY	330	74	340	5.4	224.2	99.5	33.0	91.7	1,135	650	485	147	94	53
JUN[p]	339	64	345	6.1	226.8	102.2	34.1	90.5	1,159	667	492	147	101	46
1985 TOTAL	3,214	688										1,703	1,167	534
1984 TOTAL	2,868	639										1,652	1,137	515
6 MONTHS														
1986	1,713	425										796	538	258
1985	1,522	360										788	531	257
1984	1,494	351										767	521	246
1983	1,337	329										529	378	151

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1985										
OCT	$36,525	$6,548	$14,014	$13,288	$2,675	$24,450	$6,104	$11,032	$7,208	$106
NOV	32,864	5,660	12,363	11,886	2,955	21,142	5,200	9,357	6,491	94
DEC	43,586	5,730	15,919	16,189	5,748	22,814	5,158	10,101	7,162	393
1986										
JAN	24,806	5,488	10,512	7,428	1,378	17,341	5,168	7,893	4,126	154
FEB	28,203	5,835	10,478	9,983	1,907	18,980	5,326	8,157	5,418	79
MAR[p]	34,734	8,906	13,190	10,197	2,441	25,772	8,134	10,348	6,949	341
1985 TOTAL	369,343	68,065	145,372	127,873	28,033	241,474	62,658	109,286	68,224	1,306
1984 TOTAL	295,062	50,816	129,482	97,776	16,988	199,228	47,589	96,187	54,626	826
3 MONTHS										
1986	87,744	20,229	34,180	27,609	5,726	62,093	18,628	26,398	16,493	574
1985	66,722	12,621	26,703	23,026	4,372	42,999	11,594	19,227	11,985	193
1984	65,427	13,947	25,697	22,966	2,817	44,430	13,038	18,977	12,240	175
1983	52,965	14,395	17,422	18,322	2,826	38,693	13,520	13,444	11,577	152

LENDER ACTIVITY (Cont'd.)

LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1985										
OCT	$2,694	$150	$1,456	$700	$388	$9,381	$294	$1,526	$5,380	$2,181
NOV	2,545	183	1,401	716	245	9,137	277	1,605	4,639	2,616
DEC	5,048	274	2,935	1,111	728	15,724	298	2,883	7,916	4,627
1986										
JAN	1,790	86	1,218	433	53	5,675	234	1,401	2,869	1,171
FEB	2,335	323	1,099	541	372	6,888	186	1,222	4,024	1,456
MAR$_p$	2,215	300	1,278	446	191	6,747	472	1,564	2,802	1,909
1985 TOTAL	28,034	2,396	15,604	7,262	2,772	99,835	3,011	20,482	52,387	23,955
1984 TOTAL	20,588	443	13,160	5,519	1,466	75,246	2,784	20,135	37,631	14,696
3 MONTHS										
1986	6,340	709	3,595	1,420	616	19,311	892	4,187	9,696	4,536
1985	5,079	584	2,776	1,307	412	18,644	443	4,700	9,734	3,767
1984	4,798	172	2,729	1,609	288	16,199	737	3,991	9,117	2,354
1983	3,040	191	1,589	1,050	210	11,232	684	2,389	5,695	2,464

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1985										
OCT	$29,039	$4,208	$16,134	$5,775	$2,922	$110,307	$12,436	$49,882	$29,100	$18,889
NOV	29,343	6,636	13,967	5,476	3,264	112,662	12,237	49,249	32,014	19,162
DEC	28,511	6,489	14,889	4,693	2,440	109,632	14,091	47,704	31,459	16,378
1986										
JAN	24,619	7,695	12,913	1,588	2,423	96,650	13,930	47,353	18,327	17,040
FEB	31,258	7,954	13,907	6,806	2,591	108,898	16,153	44,355	30,732	17,658
MAR$_p$	40,249	14,666	17,787	3,372	4,424	118,879	23,110	50,614	25,946	19,209
1985 TOTAL	323,085	59,986	170,763	60,635	31,701					
1984 TOTAL	258,986	44,893	146,184	47,065	20,844					
3 MONTHS										
1986	96,125	30,315	44,607	11,765	9,438					
1985	60,261	9,966	33,988	8,946	7,361					
1984	61,573	12,569	32,604	10,884	5,516					
1983	51,252	17,481	23,117	7,086	3,568					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1986												
JAN	205	130	24	51	110	$7,298	45	$2,659	19	$1,304	46	$3,335
FEB	211	136	25	50	97	6,594	45	2,773	18	1,242	34	2,579
MAR	305	211	33	61	115	7,752	57	3,477	23	1,621	35	2,654
APR	379	270	32	77	105	7,354	47	2,939	18	1,299	40	3,116
MAY	344	220	39	85	141	9,837	73	4,608	24	1,742	44	3,487
JUN$_p$	314	166	48	100	138	9,904	56	3,530	32	2,397	50	3,977
1985 TOTAL	2,194	902	251	1,041	1,261	83,305	338	19,784	192	13,046	731	50,475
1984 TOTAL	1,862	477	180	1,205	1,344	86,775	200	10,644	198	12,728	946	63,403
6 MONTHS												
1986	1,758	1,133	201	424	706	48,739	323	19,986	134	9,605	249	19,148
1985	1,017	396	103	518	579	37,447	149	8,518	79	5,189	351	23,740
1984	994	243	113	638	710	45,335	123	6,535	116	7,450	471	31,350
1983	703	158	180	365	527	30,883	174	8,505	120	7,477	233	14,901

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1986										
JAN	$1,315	$1,188	$58,391	$3,964	$4,880	$5,305	$3,709	$3,300	$10,103	$5,298
FEB	2,578	1,159	60,752	2,978	5,526	6,044	4,605	4,268	5,973	5,006
MAR	1,917	1,410	62,310	2,260	7,213	7,128	5,318	5,900	14,853	5,059
APR	3,774	1,631	64,171	2,835	8,223	9,869	6,195	5,593	13,336	6,900
MAY	3,538	1,978	67,312	4,491	9,857	10,612	8,947	8,162	4,863	5,872
JUN[p]	3,049	3,000	72,377	6,831	n.a.	n.a.	n.a.	n.a.	9,472	8,178
1985 TOTAL	20,225	21,510	—	23,649	30,743	32,601	21,885	20,489	36,101	27,857
1984 TOTAL	21,007	16,721	—	13,546	30,921	32,846	22,952	21,376	70,280	50,496
6 MONTHS										
1986	16,171	10,366	—	23,359	35,699	38,958	28,774	27,223	58,600	36,313
1985	10,418	10,880	—	8,200	18,019	19,181	14,468	13,738	24,139	17,888
1984	10,118	9,185	—	5,416	7,652	8,396	6,067	5,464	19,004	15,264
1983	9,038	8,988	—	7,387	8,281	9,772	10,193	8,799	37,950	25,781

* Year-to-date totals are for five months only

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES: FHA OPINION SURVEY FHA NEW[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.	APARTMENTS[5]
1986								
FEB	10.59%	10.49%	10.50%	10.68%	10.83%	9.89%	10.269%	11.63%
MAR	9.77	10.06	10.10	10.50	10.62	9.04	9.494	11.09
APR	9.80	9.99	9.99	10.27	10.37	8.49	9.300	10.84
MAY	10.07	10.32	10.33	10.22	10.15	8.70	9.663	10.81
JUN	9.98	10.38	10.39	10.15	10.20	8.60	10.050	11.62
JUL[p]	n.a.	n.a.	n.a.	10.32	10.28	8.29	9.813	12.02

CURRENT SECONDARY MARKET YIELDS

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]
1986			
FEB	9.75%	9.90%	9.95%
MAR	9.05	9.23	9.27
APR	9.01	9.08	9.12
MAY	9.33	n.a.	n.a.
JUN	9.59	9.51	9.54
JUL	9.32	9.48	9.49

SELECTED SECURITIES

YEAR AND MONTH	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1986				
FEB	10.21%	8.70%	7.11%	7.63%
MAR	9.41	7.78	6.57	7.20
APR	9.26	7.30	6.08	6.60
MAY	9.50	7.71	6.19	6.62
JUN	9.65	7.80	6.27	6.71
JUL	9.57	7.30	5.86	6.33

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1986				
FEB	38	105	120	125
MAR	36	127	145	149
APR	54	171	178	182
MAY	57	162	n.a.	n.a.
JUN	41	179	171	174
JUL	n.a.	202	218	219

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

YEAR AND MONTH	NOT SEASONALLY ADJUSTED									SEASONALLY ADJUSTED			
		1-4 Units				5+ Units							
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] res.	Total[2]	1-4 Units	5+ Units	Non-[3] res.
1984													
JUL	$ 3,760	$ 3,330	$ 800	$ 530	$ 2,000	$ 0	$ 0	$ 0	$ 430	$3,530	$2,960	$ 0	$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	5,250	4,000	1,280	660	2,120	80	0	80	1,000	4,980	3,880	70	770
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS[5]													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

YEAR AND MONTH	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.
1984														
JUL	$ 4,060	$ 2,940	$ 0	$1,120	$ 4,050	$ 3,580	$ 20	$ 450	$10,840	$ 70	$570	$9,870	$250	$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DEC	5,460	4,000	430	960	4,000	3,310	80	610	7,000	120	750	7,810	260	1,170
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
12 MONTHS[5]														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY[1]

YEAR AND MONTH		1-4 Units				5+ Units			
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-res.[3]
1984									
JUL	$8,870	$6,990	$1,480	$1,090	$4,420	$730	$0	$730	$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	8,840	6,090	1,300	980	3,810	170	0	170	970

MORTGAGE BANKING ACTIVITY (Cont'd.)

YEAR AND MONTH	COVERAGE[4] 1-4 Units	COVERAGE[4] 5+ Units	COVERAGE[4] Non-[3] res.	SERVICING VOLUME[1] Total	SERVICING VOLUME[1] 1-4 Units	SERVICING VOLUME[1] 5+ Units	SERVICING VOLUME[1] Non.[3] res.	NOTES PAYABLE[1] (End of Month Balances) Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	$421,420	$317,600	$63,980	$39,840	$41,960	$6,190	$12,710	$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	58	96	88	365,270	321,620	33,110	30,540	42,260	8,390	23,080	10,210

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED Total	1-4 Units	5+ Units	Non-[3] res.	DISBURSEMENTS DURING MONTH Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans	END OF MONTH INVENTORY Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans
1984														
JUL	$790	$130	$210	$450	$280	$ 70	$10	$200	$180	$2,760	$ 900	$240	$1,620	$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	830
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2,180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,660	3,440

COMMITMENTS TO BORROWERS: AND LAND CONSTRUCTION LOANS[1]

YEAR AND MONTH	ISSUED DURING MONTH Total	1-4 Units	5+ Units	Non-[3] res.	END OF MONTH BALANCES Total	1-4 Units	5+ Units	Non-[3] res.
1984								
JUL	$1,730	$130	$ 60	$1,540	$4,090	$870	$470	$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	790	200	10	580	3,910	930	280	2,700

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.